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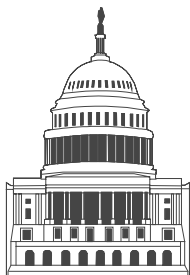
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JUNE 20, 2001

SENATOR BILL MORROW



CAPITOL UPDATE

The state budget process proceeds quietly as the joint Senate-Assembly conference committee continues to meet behind the scenes. The Governor and his representatives are part of those negotiations. His hand forced by the state's dramatic General Fund expenditures on electricity, the Governor recently announced cuts to the budget.

THE GOVERNOR'S JUNE REVISION

- In his May Revision, the Governor proposed a Reserve of \$1 billion.
- At the June 18 meeting of the Budget Conference Committee, the DOF announced that the Governor now seeks a Reserve of "between \$2.5 billion and \$3 billion."
- To accomplish this DOF announced that the Governor would "entertain" cuts as follows:

(Dollars in Millions)

Governor's Cut by Agency/Area	Amount	Percent
BUS., TRANSPORTATION AND HOUSING	\$30	2.1%
RESOURCES	90	6.3
HEALTH AND HUMAN SERVICES	200	13.9
YOUTH AND ADULT CORRECTIONS	30	2.1
GENERAL GOVERNMENT	35	2.4
EDUCATION	570	39.6
TAX RELIEF	300	20.8
REVERSIONS AND TRANSFERS	185	12.8
TOTAL	\$1,440	100%

- While the DOF proposal provides some guidance to the Committee, it provides no programmatic detail regarding the Governor's proposed cuts.

EDUCATION

The committee has taken action to cut two of the Governor's education initiatives, deleting \$5 million for the Math and Science Challenge Grant program and \$20 million that had been proposed to create 10 High Tech High Schools. Beyond that, the committee has taken no major action, but is contemplating which programs to cut to reach the \$570 million the administration has agreed to cut from education.

Among the cuts the Governor has reportedly agreed to is \$65 million for the Longer Middle School Year program. It is likely that very few new priorities -- either the Governor's or the Legislature's -- will be funded.

However, \$100 million to \$200 million for a new low-performing schools program is likely to be approved. If the full \$570 million in cuts are made, Proposition 98 spending will be approximately \$3.5 billion over the Prop. 98 minimum guarantee and budget-year per pupil spending in K-12 would increase 5.5 percent rather than 7 percent as proposed in the May Revision.

HEALTH AND HUMAN SERVICES

The Committee has yet to resolve any of the major outstanding issues in this area. It is noteworthy that, even with the Governor's proposed cut of \$200 million, the first three years of the Davis administration will have seen an increase in General Fund Health and Human Services expenditures of

\$5.8 billion, or 36 percent. During that period, the state's population has increased by only 5 percent.

TRANSPORTATION

The Governor's proposal to suspend the Transportation Investment Fund (\$1.3 billion in the budget year and \$1.2 billion in fiscal year 2002-03) for two years and transfer those funds to the General Fund remains an open issue.

Senate and Assembly Republicans have requested that the Committee consider a trailer bill that would place a constitutional amendment on the ballot to guarantee that future gasoline sales tax revenues are dedicated to transportation purposes and to restore the process of programming specific projects through the non-political State Transportation Improvement Plan (STIP).

Recognizing the need for continuity in this area, however, Republicans would agree to allowing the Governor's Transportation Congestion Relief Plan (TCRP) projects to be completed first, which should occur by 2006. The Committee has yet to decide this critical issue.

RESOURCES

The CalFed issue has now been resolved by the Committee on a unanimous vote. The Committee reduced the CalFed budget by \$17 million General Fund, but this

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reduction with not materially affect project scheduling.

CRIMINAL JUSTICE AND JUDICIARY

Following the Governor's call for a reduction of \$30 million in the area of Public Safety, the Conference Committee rejected three new proposals aimed at reducing violent inmate behavior within the prison environment. However, a number of baseline augmentations meant to correct structural deficiencies within the Department of Corrections remain intact.

TAX RELIEF

The June Revision eliminates all tax relief from the budget. While the Conference Committee has left these issues open, it appears that the majority are inclined to (1) allow the Senior Citizens' Property Tax Credit to sunset (2) allow the ¼ -cent sales to trigger back on and (3) eliminate the proposed increase in the Manufacturer's Investment Credit. The failure to include any tax relief in the budget would ensure that Californians continue to experience the highest tax burdens they have shouldered since just before the enactment of Proposition 13.

Senate Bill Morrow represents the 38th Senate District in California's State Senate. This includes most of northern and central San Diego County and southernmost Orange County.

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